**CASE 10**

**Amazon.com, Inc: Retailing Giant to High Tech Player?**

**I. CASE ABSTRACT**

Founded by Jeff Bezos, online giant Amazon.com, Inc. (Amazon), was incorporated in the state of Washington in July, 1994, and sold its first book in July, 1995. Amazon quickly grew from an online bookstore to the world's largest online retailer, greatly expanding its product and service offerings through a series of acquisitions, alliances, partnerships and exclusivity agreements. By 2010, 43% of Amazon net sales were from media, including books, music, DVDs/video products, magazine subscriptions, digital downloads, and video games.More than half of all Amazon sales came from computers, mobile devices including the Kindle, Kindle Fire, and Kindle Touch**,** and other electronics, as well as general merchandise from home and garden supplies to groceries, apparel, jewelry, health and beauty products, sports and outdoor equipment, tools, and auto and industrial supplies. Amazon faced several other challenges including those from state governments that wanted it to collect sales taxes so that it did not adversely compete against local businesses. Amazon was at a crossroads with regard to its push into technology vs. its general merchandise.

**Decision Date: 2012 FY Sales: $48 billions**

**FY Net Income: $631 millions**

**II. CASE SUBJECTS AND ISSUES**

Industry Analysis

Strategy Formulation Competitive Advantage

Strategy Implementation New Product Development

Core Competencies Market Segmentation

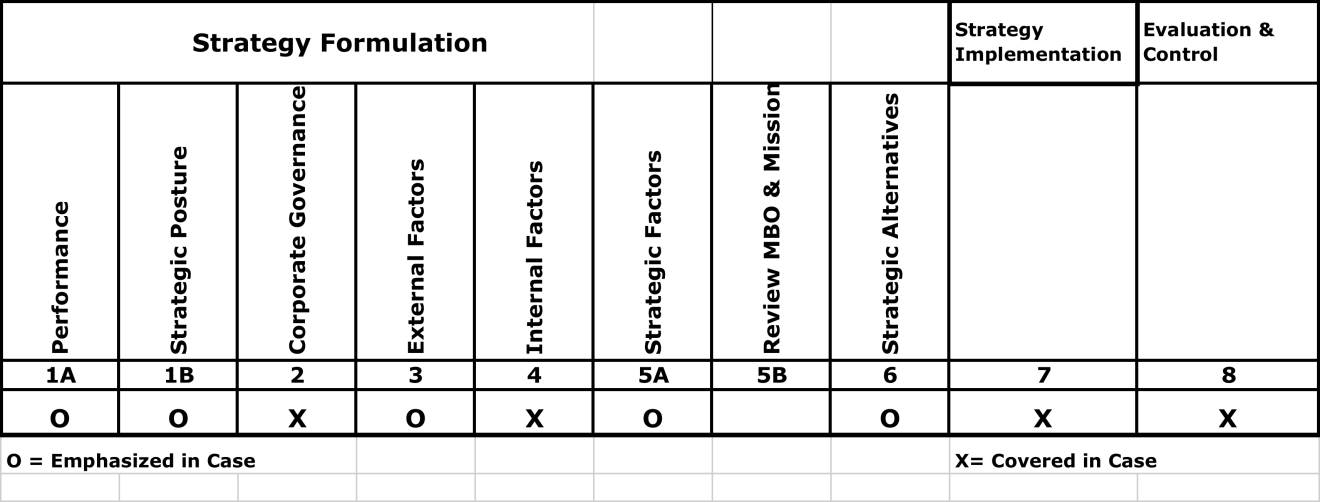
Online Marketing Online Sales

Competitive Strategy Manufacturing/Outsourcing

Digital Media/Streaming ebooks/eReaders

Same Day Delivery Sales Tax/State Govt.Relations

**III. STEPS COVERED IN STRATEGIC DECISION-MAKING PROCESS**

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**IV. CASE OBJECTIVES**

1. To discuss product innovation: eReaders and tablets.

2. To discuss online sales and streaming.

3. To discuss domestic/international online growth opportunities.

4. To discuss the merits of same day delivery.

5. To discuss sales tax collection and state govt. relations.

V. **SUGGESTED CLASSROOM APPROACHES TO THE CASE**

1. This is an excellent case for instructor-led discussion.

2. This is an excellent case for an exam or written case analysis.

3. This is an excellent case for a team presentation.

4. This is an excellent case for an individual or team strategic Audit.

**VII. DISCUSSION QUESTIONS**

1. Is Amazon becoming a High-Technology Company?

2. Does it make sense for Amazon to sell Kindle below its cost?

3. Should Amazon collect state sales tax in every state?

4. Should Amazon invest in same day delivery?

5. Should Amazon expand its streaming content?

6. Can Amazon compete with Samsung, Sony & Apple?

**Systematic Analysis of the case to aid instructor**

I. Current Situation

1. **Current Performance**

Based on a selected statistics below, Amazon Net Income and ROI declined, but the share price increased, which is partially due to share repurchase program in 2011 (10K).

* Net income declined to $631m in 2011 from $1,152 in 2010
* Share price rose to $194.44 on 1/3/12 from $169.64 on 1/3/11, or by 16%
* Return on investment was 2.5% in 2011 and 6.1% in 2010

1. **Strategic Posture**
2. The corporation's mission, strategies and objectives are detailed below. The firm's mission is aligned with Amazon's performance and is manifested by its operations.
3. **Mission**

* **Company's Mission Statement**: "Earth's most customer-centric company ... a place where people can come to find and discover anything they might want to buy online."
* Amazon is an e commerce business investing heavily in technology to gain market share and differentiate itself. It sells a wide variety of goods and services including Web Services, Kindle etc.
* The company's mission statement properly addresses the e-commerce specialization. In addition, the investments in technology infrastructure and goods & services offered (web services, acquisitions of Zappos, Quidsi etc.) provide support to the e commerce business and in alignment with the firm's mission.

1. **Objectives:**

* To increase sales domestically and internationally
* Gain and retain the market share in the e commerce industry.
* Achieve long-term sustainable growth
* Provide exceptional customer service
* Lower costs
* Continuous improvement of web site.
* Premium brand building and differentiation.

The objectives are aimed at Amazon's growth and profitability in an extremely competitive environment and are in alignment with the mission statement. They address the nature of external environment (competition, price, customer loyalty, and globalization) and internal environment (technological development, finance and marketing).

1. **Strategies**

* To increase sales and market share through partnership, acquisitions and strategic alliances.
  + Allow 3rd party sellers to place links on Amazon web sites
  + Provide hosting and web site maintenance services for partners.
* Sacrifice short term profits to gain or retain market share in certain business lines, such as e-reader (Kindle) in the long term
* Heavily invest in technology infrastructure.
* Invest in inventory management, shipping, and other business capabilities, e.g. FBA, FWS and Frustration Free Packaging.
* Utilize technology/web site capabilities to
  + Analyze website traffic
  + Customer/non-customer data collection
  + Better market products and services to customers
* Utilize technology to offer customers unique and useful tools and services
  + Ratings engine
  + Safe and convenient transaction environment
  + Ease of web site use
* Continuous adaptation to ever-changing environment
* Effective online marketing techniques to attract customers and satisfy partners
  + Pay-per-click advertisements
  + Permission email marketing
  + Amazon Prime Membership
* Strategic positioning of fulfillment centers (near airports) at low costs.

The strategies are consistent with each other as they support the corporate and business objectives.

1. **Policies**:

* Maintain a lean corporate culture, focused on increasing its operating income
* Tightly manage operating costs
* Encourage employees to develop to better serve customers
* Reduce carbon footprint

1. **International Operations**

Amazon's strategic goal is to gain international market share in e-commerce with the support of technology. Current mission, objectives, strategies and policies encourage expansion, including international operations. In order to expand overseas, the Company must have customized set of objectives, strategies and policies for each region which has a unique set of geographical, economical, business, political and social factors.

II. Corporate Governance

1. **Board of Directors**
2. 10 directors: 1 internal and 9 external
3. The Chairman, Jeffrey Bezos, holds 19% of stock, and the remaining 9 directors hold 0.03% of stock collectively.
4. The stock is publicly traded in NASDAQ under AMZN ticker. There is only one type of stock, the Common Stock.
5. Directors have collective expertise in capital ventures, technology, media and law. One of the directors, Alain Monie, is a CEO of a Fortune 100 company, Ingram Micro Inc. which is world's largest technology distributor.
6. The directors served on the board for various lengths of time. The Chairman, Mr. Bezos, has served since 1994, total of 6 directors have served for over 8 years. Two directors have served for less than 1 year (See Table I below).
7. The Board is responsible for the control and direction of Amazon Inc. The Board is very much involved in the firm's strategy and meets several times a year to address Amazon's issues and strategies. Furthermore, the Board also reviews CEO succession planning.

**Table I**

|  |  |  |  |
| --- | --- | --- | --- |
| **Directors** | **Shares Owned** | **Served Since** | **Industry** |
| Jeffrey P. Bezos | 87,963,414 | 1994 | E-commerce |
| Patricia Q. Stonesifer | 39,549 | 1997 | Art |
| Thomas O. Ryder | 31,579 | 2002 | Media |
| Tom A. Alberg | 28,344 | 1996 | Technology |
| John Seely Brown | 17,566 | 2004 | Academia |
| William B. Gordon | 7,242 | 2003 | Venture capital |
| Blake G. Krikorian | 6,950 | 2011 | Technology |
| Alain Monié | 6,550 | 2008 | Technology / wholesale |
| Jonathan J. Rubinstein | 1,831 | 2010 | Technology |
| Jamie S. Gorelick | 4 | 2012 | Law |

1. **Top Management**
2. President, Chairman of the Board, and CEO is Jeffrey Bezos. There are 11 more officers(See Table II on the following page).
3. The Officers of the company have been a part of Amazon for various lengths of time. However, all of them have held the position for at least 5 years. Management background includes holding managerial or officer positions at Apple, GE, MS, Intel, and Deloitte Touche. They possess expertise in technology, consulting, and accounting (www.amazon.com).

Three officers hold international Sr. VP positions in International Consumer Business, Worldwide Operations and Worldwide Digital Media. One officer has extensive experience in international business from his prior positions in Amazon and Apple (www.amazon.com).

None of the officers come from companies acquired by Amazon.

1. Most of the officers have been internal hires. None of the officers have held a position for less than 5 years. Therefore, their contribution is evident from Amazon's performance in various strategic areas: e-commerce, partnerships, technology, etc.
2. The top management has established a systematic approach to strategic management to support the firm's mission and objectives.
3. Top management is responsible for strategic development of their departments, which are co-dependent and together contribute to Amazon overall market position. Each department/subsidiary has a strategic position and therefore it requires high involvement of top managements.
4. All employees are encouraged to develop better solutions in their areas of expertise. Thus, top management relies on lower level managers to get new ideas for strategies, improvement and development. The board of directors oversees top management performance, and meet several times a year to discuss company's strategy and direction. The CEO is also a Chairman of the Board, which provides the Board a better "ability to focus on key policy and operational issues."
5. Ethical and Social Responsibilities:

* Environmentally friendly (Carbon foot print reduction initiative)
* Use of recyclable materials in packaging
* Reducing waste by determining a right size of the shipping box

1. Officers' compensation is a combination of stocks, base salaries and bonuses. Stock compensation is a primary component of compensation which is "tied to long-term shareholder value" (www.amazon,com).
2. Top management collectively has expertise in key areas, such as technology, e-commerce, consumer business and law.

**Table II**

A description...

www.amazon.com

III. External Environment: Opportunities and Threats (SWOT)

1. **Societal Environmental**
2. The following forces are affecting both Amazon and the e-commerce industry which it competes. These forces present both current and future threats (T) and opportunities (O).
3. **Economy**

* Global marketplace (O)
* Disposable income of target population [ Economic Boom (O) , Recession (T) ]
* Cost of transportation (oil) (T)
* Cost of real estate (T)
* Expiration of Tax Exemption(T)

1. **Technological**

* Industry-related technology advancement (O)
* Security of web site and transactions (O / T)
* Mobil functionality (O)
* Increase in Cloud Spending (O)
* More tech savvy customers (O)

1. **Political – Legal**

* Patent, License and Copyright Laws ( O / T)
* Increased Risk of Litigation (T)
* Increase in Taxes (T)
* Regulation of Industry( O / T )

1. **Sociocultural**

* Growing comfort with online shopping in different countries ( O )
* Buying Local ( T)
* Increase demand for immediate product fulfillment (O / T)

1. Since Amazon is a global retailer, does not have the same limitations as a brick and mortar retailer, Amazon's environment forces vary at different degrees based on the region in the world of the purchaser. Many of the forces apply to each but they affect Amazon at different levels.
2. **Task Environment**
3. The following forces drive industry competition for Amazon. These factors affect Amazon globally at vary degrees depending on the region in which it is competing.
4. **Threats of New Entrants : Low**

* Need for high capital investment
* Very crowded marketplace (EBay, Barnes & Noble, Apple, Metro AG etc.)
* Large economies of scale
* Partnerships
* Brand Recognition

1. **Bargaining Power of Buyers : High**

* Price sensitive customers
* Large number of Online retailers
* Cut throat price competition

1. **Threat of Substitutes: High**

* High Presence of Brick & Mortar retailers

1. **Bargaining Power of Suppliers: Moderate**

* Provision of free inventory storage, increased brand presence and product push directly to the consumer helps maintain supplier loyalty
* FBA and FWS help ease inventory management for the suppliers
* Suppliers have options to sell directly to its customers

1. **Rivalry Among Competitors: High**

* EBay sales reached 62b US$ in 2010, Metro AG 67b euro in sales.
* Kindle currently selling below cost price.
* Apples ipad presence and i-tunes also pose a threat to Amazon sales.

1. **Relative Power of Unions and Governments: Low to Moderate**

* Enforcement of local sales tax collection by the government.
* Not affected by union presence or special interest groups.

1. Competitors, Customers and Government are the key factors in the immediate environment currently affecting Amazon Inc. Each of the factors presents its own set of opportunities and threats both in the present and in the future. Currently Amazon Inc. is faces the risk of being affected by government enforcement of tax collection, price sensitive consumers and fierce competition.

1. **Summary of External Factors (See Exhibit I - EFAS Table)**

* Volatility of delivery costs is a substantial force.
* Oil & Real Estate costs are volatile to market forces and will have an impact on the operations cost of Amazon Inc.
* Amazon competes on an image of low costs and does include free shipping programs.

IV. Internal Environment (SWOT)

1. **Corporate Structure**
2. Amazon is structured into a business unit and then by functional unit
3. The organization tree consists of a board of directors at its root followed by officers and top management.
4. The firm is divided into different functional areas with a VP associated with each. The functional units culminate under one broad business unit
5. Based on the information given, we could infer that the structure is well understood within the firm.
6. As Amazon Inc. objectives and strategies revolve around e-commerce and technology, the division of the board of directors implies alignment.
7. The structure is similar to eBay based on the inference on the similar acquisition strategies.
8. **Corporate Culture**
9. Encouragement of top management to discuss and share ideas illustrates a well defined culture composed of shared beliefs, expectations and values.
10. The culture is indeed consistent with strategies and policies. The focus on customer service and analysis to provide customer oriented recommendations provides an inference about team work.
11. Culture of openness and knowledge sharing can generate more innovations to better serve its customers. Flexibility and adaptability to the ever changing industry is essential to the firm’s culture. Productivity is reinforced by stock-based compensation and quality of workplace environment.
12. Employees are cross cultural and multi- national.
13. The presence of different websites for multiple countries and fulfillment & customer service centers in North America, Latin America, Europe and Asia illustrates that Amazon values different cultures and practices.
14. **Corporate Resources**
15. **Marketing**
16. **Objectives**

* Growth/Expansion in Target Markets Segments (North America and International )
* Achieved marketing goals will increase revenue generated by 4 streams: Media, Electronics and General Merchandise, Services, and Other
* Marketing strategies revolve around price, selection ("One Stop Shop" website), ease of use, and customer satisfaction

**Strategies/Programs**

* + Online Marketing - vital to strategy
  + Amazon Website (ease of use as marketing tool)
  + Amazon websites were designed to be easy and simple (e.g. Payments for multiple products could be done once and payments would follow the same process regardless if the sale was directly from Amazon or one of it's associates.)
  + Website traffic tracking and analysis allowed Amazon to direct visitors to items them may be interested in.
  + Pay-Per-Click Advertisements
  + Advertisements on search engines such as Google. Amazon paid a fee per each visitor who clicked on the sponsor website.
  + Permission marketing/E-mail Marketing
  + Permission to e-mail customers with specific production promotions based on prior purchases.
  + Amazon Prime
  + Membership program that was offered for a $79 annual fee which allowed for free next day delivery and free access to Amazon Instant Video.
* Television & Radio Advertisements
  + Amazon initially reduced television and radio advertisements as they believed them to be ten times less effective. However, in 2010, television advertising was launched to increase brand awareness.
* Free Shipping Offers/Speedy Delivery
  + As part of maintaining its objective of competing on price, Amazon offered a number of free shipping offers.
  + In the third quarter of 2011, Amazon’s shipping fees generated $360 million in revenue, which was reduced by $918 million in shipping expenses.
  + Amazon expedited shipping by strategically locating its fulfillment centers near airports.
* Amazon Credit Card (brand recognition marketing tool)
  + Amazon also offered its own credit card co-branding with Chase Bank.
  + Amazon generated cash from Amazon purchases and from fees generated from non-Amazon purchases.
  + Amazon loyalty generated as consumers earned points towards Amazon gift cards.
* Kindle/Kindle Fire
  + Kindle was sold below cost as it was expected to generate increased sales of e-books and other digital content.
  + E-book sales took off and increased by more than 100% according to the Association of American Publishers. Other products were being offered in digital formats.
  + In 2010, 43% of Amazon net sales were from media, including books, music, DVDs/video products, magazine subscriptions, digital downloads, and video games.
  + Half of all Amazon sales came from computers, mobile devices including the Kindle, Kindle Fire, and Kindle Touch, and other electronics.
* Product/Service Selection
* One of Amazon's core principles is selection. Amazon strived to offer a wide selection of merchandise.
* Through Partnership and Acquisitions Amazon has been able to offer a wide variety of products and service.
  + In July 22, 2009 Amazon acquired Zappos an online shoe and clothing retailer
  + In November 8, 2010 Amazon acquired Quidsi the parent company of [Diapers.com](http://Diapers.com/), an online baby care specialty site, and [Soap.com](http://Soap.com/), an online site for everyday essentials.
  + In December 2, 2010, Amazon invested in $175million in LivingSocial, a site dedicated to offering easy access to restaurants, shops, activities and services.
  + In January 20, 2011, [Amazon](http://markets.ft.com/tearsheets/performance.asp?s=us:AMZN) acquired Lovefilm a European web-based DVD rental service.
* Amazon Market Place
  + Developed partnerships with many retailers, such as Target, Sears Canada, Bebe Stores, Timex Corporation and Marks & Spencer
  + Independent retailers and third-party sellers can sell their products on Amazon by placing links on their websites.

1. Amazon's marketing strategies are clearly stated and are represented by Amazon's performance/budget.

* 2011 Figures/Statistics:
  + Marketing expenses accounted for 3.4% of net sales ($1,630 million)
  + Affected by seasonality, Amazon recognized 36% of profits in the 4th Quarter
  + Software and web-development costs represent 4% of Net Sales
  + Amazon operated in facilities of approximately 48,307 thousand square feet
  + Shipping revenues account for 3.2% of Net Sales ($1,552 million) however shipping cost accounted for 8.2% of Net Sales ($3,989 million)
* Growth (Since 2009)
  + In 2009 marketing expenses were $680 million and in 2011 were $1,630 million. In 2011 this was a year over year percentage growth of 58%.
  + In 2009 total net sales were $24, 509 million and in 2011 grew to $48, 077 million.
  + Shipping Revenues grew by 68% from $924 million to $1,552 million. Shipping Expenses grew 125% $1,773 million to $3,989
  + Amazon operated in 19,726 thousand square feet in 2009 and grew by 41% to 48,307 thousand square feet in 2011.

1. Amazon's marketing strategies, objectives, and mission are consistent with internal and external environments.
2. In 2012 software development, order fulfillment and customer service centers were located in North America, Latin America, Europe and Asia and fulfill orders in 200 countries.

* In 2011, Amazons total sales were represented by 56% in North America and 44% International
* In 2011, sales of electronics and other general merchandise represented 59% of total sales ($28,712 million).
  + 53% of all International sales and 65% of all North American sales
* In 2011, media sales represent 37% of all sales ($17,779 million)
  + 46% of all International sales and 30% of North American sales
* Amazon's products and services are in the growth phase. Change's such as additional products and services are consistently being added to Amazon e-commerce and features are being added to Kindle (Kindle Fire).

**Trends**

* + - Continued increases in online shopping as customer have become more comfortable with shopping online.
    - North America website visitors dominated with accounting for 66.8% of all Amazon online visitors.
    - In 2009 sales of media sales accounted for 52% of all sales and in 2011 this number decreased 36% with Electronics growing to 64%.

1. **Past/Future Performance**
   * + Online sales will continue to grow and Amazon will have to make adjustments to its capacity.
     + Amazon objective will be to continue to expand it's international reach. Amazon target is to have International markets represent 50% of future sales.
     + Increased sales in electronics and digital products will lead to continued investment and research and development to Amazon's IT infrastructure.
     + Amazon's Kindle sales have increased and is part of the Electronic sales. This will lead to longevity and brand loyalty.
2. **Past/Pending Strategic Decisions**
   * + Heavy investments in IT Infrastructure to support increased capacity.
     + Investment in additional facilities to support capacity and to continue speedy and reliable delivery.
     + Amazon launched their own App store in March 2011 to support digital sales.
     + In 2010 Amazon purchased Touchco a touch-screen technology company (www.engadget.com) and in July 2012 Amazon bought UpNext, a 3D mapping company to support Electronics (www. gigaom.com).
3. Marketing expands Amazon's brand recognition and brand recognition gives Amazon a competitive advantage.
4. Amazon competes with a number of organizations such as Metro AG, Barnes and Noble, E-bay and Apple.
   * + Apple currently has 60% of the market. The remaining market share is shared by Sony Nook, Samsun Galaxy and the Kindle Fire.
     + E-bay had a total value of goods sold of $62 billion in 2010, making it the world's largest online market place serving 39 markets and with more than 97 million active users worldwide.
     + Serving in 33 countries sold Metro AG, one of the world's leading international retail and wholesale company, sold €67 billion worth of goods sold
     + Amazon Glacier competes with Rackspace ([RAX](http://finance.yahoo.com/q?s=rax)) and Microsoft ([MSFT](http://finance.yahoo.com/q?s=msft)) offering its own solutions.
5. Managers are using acceptable marketing concept and techniques by staying current with e-commerce trends. Amazon using Frustration Free Packaging as being environmentally friendly has become a social concern. Amazon offering free and speedy shipping as cost savings and immediate satisfaction drive consumer purchases. Consumers desire a competitive price and that can be easily obtained. In addition, Amazon uses both Push and Pull marketing strategies to sell its products in the Growth phase.
6. Amazon has dedicated sites for the following countries; Austria, Canada, China, France, Germany, Italy, Japan, Spain, United Kingdom and United States. This allows Amazon websites to be customized to local client's preferences.
7. Marketing Managers decisions greatly impact the logistics and operations of Amazon. For instance if instance same day delivery would allow for "immediate satisfaction" marketing and will have a great impact on strategic management processes.
8. **Finance**
9. **Objective**
   * + Achieve long-term sustainable growth and profitability

**Strategy**

* + - Amazon objective is to maintain a lean culture focused on increasing its operating income through continually increasing revenue and efficiently managing its working capital and capital expenditures, while tightly managing operating costs.

1. Objectives and strategy are clearly stated and implied by Amazon's financial performance (See Table III on following page).
2. Amazon's financial strategies as stated agree with Amazon's mission of expansion and supporting wide product selections. However, Amazon's stated financial strategy of managing operating cost is not visible and consistent with strategies to increase capacity (inventory, IT spending, etc.).
3. **Financial Performance** (Information from annual filings obtained from www.sec.gov)

(See Exhibit IV and V at the end of this teaching note for Full Summary of Financial Analysis and common size Income Statement)

* + - Revenues increased from $19,166 million in 2008 to $48,077 million in 2011.
    - Although revenues have grown to $48,077, Net Income had decreased from $1,152 million to $631 million from 2010 to 2011.
    - Operating Expenses has increased by 185% from 2008 to 2011.
    - Cost of goods sold account for approximately 78% of revenues

**Table III**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Dec-2008** | **Dec-2009** | **Dec-2010** | **Dec-2011** | **Explanation:** |
| **Current Ratio:** | 1.30 | 1.33 | 1.33 | 1.17 | Amazon can cover its short term obligations however, this is slowly decreasing. A number closer to 2 would be more desirable |
| **Return on Investment (ROI)** | 7.76% | 6.53% | 6.13% | 2.50% | Decreasing as a result of Inventory increasing along with increases in Operating Costs. |
| **Return on Equity (ROE)** | 24.14% | 17.16% | 16.78% | 8.13% | Decreasing as a result of Inventory increasing along with increases in Operating Costs. |
| **Net Profit Margin** | 3.37% | 3.68% | 3.37% | 1.31% | Reducing as a result of increasing Operating Expenses |

1. Trends
   * + Operating expenses increase due to increases in R&D and Selling and General Expenses. This has reduced Net Profit Margin.
   * Operating expenses represented 21% of Revenues in 2011 which is a 4% increase from prior year. This includes expenses related to software and web-development expenses.
     + Revenues have consistently grown with International sales growing each year closer to 50% of all sales.
     + Inventory levels have increased to keep up with capacity and speedy delivery.
   * Consistent with Amazon's strategies of speed, Amazon increase inventory by 257% from 2008 to 2011
     + Property Plant and Equipment increased from 377% from $1,078 million in 2008 to $5,143 million in 2011 to support efficiency and International Sales growth.
2. There is no significant difference between constant or reported dollars in the statements due to negligible inflation
3. Past/Future Performance

Amazon's decision to sell hardware (Kindle and Kindle Fire) has reduced Amazon's profit margin as Electronic Sales have increased. This has caused Amazon to increase IT and R&D Investments in such products. Amazon's financial performance is also being affected by holding increased inventory to support its marketing of immediate shipping.

1. Past/Pending Strategic Decisions

Financial performance supports Amazon's position to compete in Hardware and to increase speed of shipping.

1. Competitive Advantage
   * + Amazon's heavy investment in Research and Development and Technology has given Amazon a competitive advantage. It provides a secure website which customers trust, collect and analyze web traffic to push products to customers, provide a number of web services, and creates brand loyalty with products like the Kindle.
     + Operating Expenses have been substantial to Amazon's financial performance as they are used to support principles of ease of use and customer service which give Amazon a competitive advantage.
2. **Research and Development**
3. **Objective**

* Continued e-commerce success which relies heavily on Amazon's IT infrastructure.

**Strategy**

* Invest heavily in technology infrastructure
  + Investment in software to support "Frustration Fee Packaging" program that would help identify appropriate packaging for each item.
    - Continuously improve Amazon websites
  + Identify problems and develop solutions to enhance customer experience
  + Continue to analyze and apply web traffic data
    - Investments in Web Services and Hardware

1. Amazon's R&D objective and strategy are clearly supported and supported by Amazon's budget.
2. Core principles such as; ease of use; speedy, accurate search results; selection, price and convenience; a trustworthy transaction environment; timely customer service; and fast, reliable fulfillment are all enabled by the sophisticated technology.
3. Amazon's corporate strategies heavily rely on sophisticated technology and Amazon's actions are supporting these principles/strategies.
4. A mix of basic, applied and engineering research is appropriate given Amazon's mission and strategy. Amazon needs to continue is research to increase customer satisfaction and to continue its progress with web services and the Kindle.
5. Research & Development has given Amazon a competitive advantage by creating a reliable e-commerce business model and website. Also, Amazon's Kindle was able to compete in a market dominated by Apple and in which other IT giants such as RIMM and HP were unable to compete.
6. In 2011, Amazon invested 6% of Revenues into R&D. In addition, sales of electronics and other general merchandise represented 59% of total sales. Investments in R&D will benefit Amazon in the long run however will threaten near term margin growth.
7. Amazon offers a number of web services and has built a competitive IT infrastructure to compete. Amazon is competent in technology transfer.
8. Amazon is threatened by technology discontinuity as not maintaining it's security can lead to a breach of security by outside parties. In 2012 Amazon had systems and processes in place to counter attempts however failure to maintain this could be detrimental to Amazon's success.
9. Amazon e-commerce competitors rely heavily its IT infrastructure to support its online presence. However, Amazon's investment in the Kindle e-book reader/Kindle Fire, Web Services and Amazon Glazier has allowed Amazon to compete more aggressively against e-commerce competitors as well as compete against Technology giants.

* Kindle e-reader/Kindle Fire
  + Kindle e-reader allowed for easy access to e-books and digital content that could be purchased from Amazon.
  + Kindle Fire was a Android based tablet with a color touch screen which was priced at $199, $300 lower than the ipad.
* Web Services
  + Offered a number of web service (e-commerce, database, payment and billing, web traffic and computing)
  + Web services (many which were free) created reliable and scalable computing platform for small online businesses.
* Fulfillment By Amazon (FBA) e-commerce program
  + FBA allows merchants to direct inventory to Amazons fulfilment centers. It also allowed merchants control over their inventory
  + Fulfilment Web Services (FWS) was added to FBA allowed retailers to embed FBA capabilities to their own site.
* Amazon Glacier
  + A cloud storage solution that was offered as a low cost solution to data archiving.
  + Amazon dominated the space of cold storage, which came into prominence in 2009.

1. Amazon must support each of its International websites. Amazon's technology investments must span across all countries including supporting its logistics.
2. The role of the R&D Manager is to ensure that Amazon's technology is continuously is being improved to support Amazon's operations and Marketing techniques.
3. **Operations and Logistics**
4. **Objectives**:

**Website**:  Ease of use, speedy, accurate search results, timely customer service and fast, reliable fulfillment

1. Key to success was continuous website improvement.  Consistent with the firm’s objective to provide superior customer experience.
2. Huge part of technological work done was about identifying problems and designing solutions to enhance customer experience

**Web Services:** Provide access to technology infrastructure that could help small business’ online presence and help firms optimize costs.

1. Heavy investment in technology infrastructure
2. Cloud storage solutions(Amazon Glacier) to provide storage for data backups
3. Significant growth potential of web services infrastructure in international ecommerce

**Delivery:** The objectives of providing speedy delivery to customers and providing options to enhance customization are consistent with external environment

1. Operation Capabilities
2. Global brand with website presence in Canada, United Kingdom, Germany , France, China and Japan
3. Partnerships with many retailers for online hosting and management of websites
4. Strategic locations of fulfillment centers near airports. Programs such as Amazon Prime intended to deliver products within two days to the customers were thus possible
5. Amazon Marketplace allowed retailers to embed Amazon links on their websites. Amazonearned fixed fees, revenue shared fees, per-unit activity fees or some combination   thereof
6. Utilization of warehouses to store products by the retailers for a fixed fee and sell them as demand arises
7. Manufacturing services and warehouses are not vulnerable to nationalization by governments. The fulfillment program reduces the risk of product non availability and also the supplier risk.
8. The presence of people working continuously on website and customer service provides an illustration on heavy emphasis on consumer satisfaction by Amazon Inc
9. Corporation performs well relative to its competitors. However, heavy reliance on digital media formats void the competitive advantages of low cost  physical warehouses and distribution capabilities. In 3rd quarter of 2011 , the shipping fees generated $360 million in revenues but the firm incurred $918 million in shipping expenses
10. The trend from the programs like web services and website maintenance support the inference of being a firm the suppliers find easy to do business with
11. The trends affect the future performance as suppliers rely on the friendly web services programs and customers on the expedited delivery programs
12. The actions of the firm are in alignment with the strategic directions of the firm
13. The operations provide the company with a competitive advantage via services like frustration free packaging and fulfillment services
14. The strategic location of distribution centers and success of programs like Amazon prime support the notion of the firm using appropriate techniques in delivery and operations to satisfy the customers. However, some problems persist.
15. Frustration free packaging program to help reduce the carbon footprint and reduce waste.   
    Direct arrangement with manufacturers to package the products right off the assembly line.
16. Inventory costs not balanced with just in time costs for Kindle( sells below cost price
17. The distribution and logistics suggest following of lean principles by the firm.
18. To be consistent with the macroeconomic changes, the firm decided to charge sales tax in about 50 states. The firm plans to open warehouses near population centers to provide same day delivery
19. **Human Resources Management (HRM)**

Not much information provided on Human Resource Strategies in the case. However, some detail could be inferred based on the information given

1. **Objectives**:

* To hire a highly competent technical staff to help optimize the web site and work on   
  web services
* To have a staff that provides a very effective and efficient customer care and experience
* To include personnel good at analysis and data mining so as to analyze and provide recommendations to the consumers
* To have a team of highly qualified experts in Information Security so as to preserve all the customer data and keep the operations secure
* To have a good manufacturing and design division to cater to Kindle Segment
* Streamline the policies of the employees of the acquired firms
* To have managers experienced in working with lean based processes

**Strategies:**

* Good Monetary and Other incentives. ( Increase in payroll expenses was also one of the reasons for net income decline between the years 2009 and 2010)
* Keep the employees motivated and challenged so as to be innovative
* Target development of staff in areas such as  
     a. Research and Development. Sales & Customer Support.  
     b. Web Analytics, Data Mining, Web Services, User Interface Design

1. Based on the information provided, Amazon HRM must be clearly stated as the company's success directly depends on the employee expertise and experience and employment longevity to support long-term goals.
2. The strategies, policies and programs seems to be in alignment with internal and external environments.
3. Not much information given on the quality of life of employees
4. The performance of the projects and firms gives an impression that employees are indeed producing quality products
5. The trends supports the inference of the staff being talented and the scope of more innovations from this firm
6. . No direction mention of HRM with strategic direction given in the case. However, the performance of the firm supports the notion
7. Continuous website improvement , web services and operations management at different locations services require good talented personnel. The HRM does provide the firm with competitive advantage
8. The operations of the firm support the hypothesis that the HRM provides the firm with competitive advantage. These operations include but not restricted to consumer data analysis, web services provided etc
9. Not much information can be gleaned about HRM performance comparison with other firms. However, HRM does provide Good Monetary and Other incentives. ( Increase in payroll expenses was also one of the reasons for net income decline between the years 2009 and 2010)
10. Performance evaluation information is not mentioned in this case. The HRM does work on improvements of employee capabilities
11. Keep the employees motivated and challenged so as to be innovative.
12. Target development of staff in areas such as  
       a. Research and Development. Sales & Customer Support.  
       b. Web Analytics, Data Mining, Web Services, User Interface Design
13. International Offices and Presence in Asia, Europe, North America and Latin America would require local management within the respective sites
14. The work teams comprised of people from different cultures and backgrounds
15. Divisions Info gleaned from Appendix:  
    Business Development, Seller Services, Web services, Worldwide digital Media, Worldwide Operations, International Consumer Business, E-commerce platform ,
16. Managers need to be experienced with lean based processes.
17. Not much information is given about the role of HRM in strategic management process
18. **Information System (IS)**
19. **Strategy:** Friendly and Easy to Use Web features for the customers to manage orders, Effective Web Services for the small business to increase web presence and web storage services to help firms in optimizing costs

**Objectives**:

* Continuous Website Improvement.
* Website traffic analysis and recommendations based on data mining.
* Web services targeted to make it easy for developers of virtual business

1. Objectives implied by the firms operations and mission
2. Consistent with corporation’s mission and objectives. The information systems provide a unique advantage and help the firm cope with competition
3. The information system provides the scope of data analysis via huge database of customers and their purchase information
4. The trend that emerges is that of more targeted suggestion to the user based on analysis of his/her previous purchases
5. The user reviews information provided for each product helps customer in making a well informed judgment. The site provides features to rate the product to help assist the objective
6. The information systems is the key competitive advantage of the firm
7. Businesses and Retailers could use the Amazon MarketPlace feature to place links on their websites. Affiliate Marketing provided by IS at Amazon helps in sales of small businesses
8. Web Services for ecommerce, database, payment and billing, web traffic, computing and Fulfillment web services help to reduce the complexities at the end of retailers and are thus a points of difference for the firm
9. Amazon Glacier solutions puts the firm in a dominant position ahead of RackSpace and Microsoft in cold storage space
10. The absence of any major security threats provides an inference that the Information System Managers have been adept at placing proper security controls. However, it is not mentioned or can be inferred about the advanced security measures to be taken to deal with growing data and complexities
11. International presence in terms of websites at India, United Kingdom, Japan etc and presence of worldwide operations division suggests different professionals from different countries at the respective locations. The operations within those locations are streamlined with the corporate division
12. No information is mentioned about the role played by Information Systems Manager
13. Summary of External Factors (**See Exhibit II - IFAS Table)**

V. Analysis of Strategic Factors (SWOT)

1. Strategic Factors Analysis Summary (**See Exhibit III - SFAS Table)**
2. Amazon current mission and objectives are consistent with the key strategic factors. However, the mission statement does not address potential new businesses that Amazon may enter in.
3. A current mission statement clearly addresses Amazon’s nature of business, e-commerce, but if sources of revenue come from other industry than e-commerce; Amazon must address it and change mission statement and objectives. If Amazon gains a market share in other industries, such as mobile or hardware industry, its mission statement and objectives should be altered to reflect new strategic directions.
4. If Amazon changes its mission statement, it must also revise its objectives and strategies to re-allocate resources and inject essential investment into new strategic operations. The change in the strategic direction may trigger corporate reorganization. Given Amazon’s diversified industry portfolio and significant capital resources, Amazon should maintain flexibility in adjusting to changing strategic direction, but simultaneously Amazon should have a clear vision and understanding of what is their primary mission is.

VI. Strategic Alternatives and Recommended Strategy

1. **Strategic Alternatives**
2. Current Objectives fit for the company's strategic direction in the short term however Alternative strategies are recommended for long term growth and continued success
3. Amazon should continue to work on websites improvements.
4. Amazon should continue the customization based on geography and recommendations based on analysis of the customer purchases
5. In addition to organic growth, acquisitions could add to the existing distribution channel and product divergence
6. Alternative Strategies
7. Cost Leadership -  Part of the Current Strategy

**Pros**:

* Increase Sales
* Helps to attract customers by passing cost savings to customers (low cost shipping and purchase processing fee, if any)
* Can create a positive free cash flow and frees up financial resources for further profitable developments and acquisitions
* Large size allows Amazon to utilize economies of scale.

**Cons:**

* Competing on basis of free/low cost shipping will decrease Amazon's revenues as expenses increase
* Requires continued effort to increase revenues or decrease costs to ensure it does not become destructive
* Kindle selling below cost eats up profits

1. Differentiation - Part of the current strategy

**Pros**:

* Wide range of products and services offered at one site which makes for a simple and easy shopping experience (one-stop-shop).
* Large and unique information technology structure.
* The huge warehouse and distribution facilities help with early customer product delivery (Benefits of Prime Membership leads to differentiation).
* Introduction of Kindle and Amazon Chase Credit card to create unique brand recognition strategies from its competitors
* Significantly different than traditional brick-and -mortar shops however only slightly different from competitors (e.g. E-bay auction strategy)

**Cons**:

* Costs may exceed the revenues (e.g. Kindle costs)
* Web-based products may be replicated by competitors
* Some unique Amazon products and services may not be profitable (e.g. one day shipping)
* Continued attempts for differentiation will require additional funds and may increases expenses (e.g. acquisitions)
* May force Amazon to expand into undesired areas to continue to be considered an all inclusive one stop shop e-commerce.

1. Stability - Not primary strategy as Amazon thrives for growth, however in the slow growth period it is essential

**Pros**:

* Stable business implies that no market share is lost
* Continued effort on managements part for growth and improvement
* Management comfortable with heavy investments to promote growth

**Cons**:

* Competition may hamper the business (eBay and metro AG)
* Nature of industry requires growth (no stability) in lieu of highly competitive business

1. Growth - Part of Current Strategy

**Pros**:

* Increase in profits and revenues
* Increase market share in existing businesses and tap into new markets in new geographical areas as well as through offering new products and services
* Shareholders and stakeholders will view growth positively (may lead to employee retention)

**Cons**:

* Increase expenses to support growth/expansion
* Increased risk in managing complexities
* Potentially unsuccessful ventures

1. **Recommended Strategy**
2. Amazon should build upon it's core competencies to grow organically and increase the market share. In addition, Amazon should take into consideration types of expansion that will allow to keep Amazon competitive and unique from its competitors.
3. Growth / Stability
   1. Existing cloud computing technology infrastructure could be leveraged better by its application across different devices. Amazon has stayed competitive in the cloud business and continued focus can be beneficial to Amazon.
   2. Existing data mining on customer's needs and shopping habits should be expanded and taken advantage of as this information may even be valuable to Amazon's and many of it's partners.
   3. Amazon's business strategy should continue to support it's e-commerce business. At a functional level, there needs to be more investments in technology infrastructure and marketing. Technology Infrastructure will continue to give Amazon a distinctive competitive advantage and marketing will allow Amazon to become highly recognizable globally.
4. Differentiation
5. With an increase focus on cloud and web improvements on the continuum, Amazon should not rush into one day shipping. This will increase Amazon's expenses and may waste Amazon's inventory space. However, Amazon should continue to seek increase efficiencies such as with the Frustration Free Packaging program.
6. Mobile development seems like an attractive strategy given Amazon's technological strengths and increased digital sales. This will differentiate Amazon even further from it's competitors similar to their expansion with the Kindle.
7. Two chosen strategies (growth and differentiation) will allow Amazon to reach its objectives for growth in terms of market share and financially. Through continued improvement and innovation Amazon has potential to grow by 1) winning new customers and 2) stealing market share from direct competitors. Amazon will also grow through tapping into new markets both geographically and strategically (mobile development). Each recommendation will lead to market share growth for Amazon. Differentiation will allow Amazon to offer unique products to customers, which in turn lead to growth. Both strategies address short and long-term objectives, as specified in SFAS table
8. Policies regarding cost management and technology infrastructure need to be revised. There needs to be guidelines on how to focus on cloud, e-commerce website technology and mobile and kindle developments without inefficiencies and waste. Being able to hire flexible and knowledge employees and being able to translate easily from one area to another would be optimal.
9. The strategy focuses on strengthening Amazon's core competencies and will optimize their usage for the firm’s growth. Other than the recommendation to enter into mobile development other recommendations focus on areas which Amazon are currently heavily invested in. All recommendations seem to be a great fit with Amazon's mission.

VII. Implementation

1. Restructuring is not necessary as all areas are implemented to promote e-commerce. However, special focus should be spent on Cloud, Kindle, mobile developments and web services, as they can contribute to Amazon's growth.

R&D:

* Continue to invest heavily in Amazon's Information Infrastructure (web improvements, cloud developments, and customer tracking).
* Invest in mobile devices to compete more aggressively with competitors. Amazon has many relationships and knowledge to transition into this market.

Marketing:

* No necessary changes.

Operations:

* Same Day Shipping - Amazon should not aggressively seek to achieve this due to high costs that would need to be incurred to support this strategy. Also, competitors in e-commerce market have not yet started this trend. However, as this can become a trend, Amazon should implement test areas and focus groups to obtain information of its success and failures for potential future use. Amazon currently incurs high costs associated with inventory and cost of goods sold (accounting for 78% of revenues) so this option needs more detailed reviews,

1. Feasibility and Timetables

* Feasibility (Financial)
  + - Given Amazon's current financial position addition investments in strategic implementations may greatly affected their financial position and how investors view them. However, Information technology is already a heavy investment and gives Amazon a competitive advantage.
* Pro -forma Budgets
  + - A pro-form budget cannot be assessed at this time given data provided. Additional research is needed to determine the revenue and cost impacts of these strategies.
* Priorities and Timetables
  + - Currently Amazon should continue to seek geographical areas of growth to expand naturally with current operations and procedures.
    - Amazon's first priority should be growing it's Cloud business as a foundation for this already exist. Amazon should determine ways to compete aggressively in the cloud industry. Next Amazon should concentrate on additional steps needed to compete in the mobile industry. The last area should be the same day delivery as current pressures are not forcing this change in strategy.

1. Current operating procedures are effective however should be reviewed on an annual basis as continued growth and a competitive environment may create a need for new developments. Amazon should look for ways to create more efficiencies or cost savings with the current operating procedures such as with the Frustration Free Packaging software.

VIII. Evaluation & Control

1. Current information systems are capable of providing sufficient feedback on implementation activities and performance as Amazon is proactively tracking customer traffic. Amazon's concentration on customer satisfaction as well as customer rating systems implemented in Amazon's websites allows Amazon to monitor success and failures of current procedures.
2. Amazon can pinpoint performance by area, function, or unit as they have implemented tracking processes from order to fulfillment. If an issue occurs, it is likely that Amazon can review its tracking to determine which area is not performing adequately. An example would be Amazon's ability to identify that items were being shipped in packages that were larger than necessary producing additional waste.
3. Information can be obtained on a timely basis as tracking is occurring real time.
4. Controls measures in place to enforce conformance with strategic plan
5. Control measurements were not discussed in the case however given Amazon's continued effort for efficiencies and improvements it can be inferred that controls do exist.
6. Rewards systems were no discussed in the case.
7. Although it was not discussed in the case who takes corrective action, it can be inferred that given Amazon's customer service concentration that Amazon does take action to rectify any issues that affect customer experiences.

Exhibit I: External Factor Analysis (EFAS)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Factors** | **Weight** | **Rate** | **Weighted Scored** | **Comments** |
|  | | | | |
| **Opportunities** |  |  |  |  |
| Expansion in Global marketplace | 15% | 5 | 0.75 | Expansion globally and to developing countries. This will continue in current markets as there is a growing comfort with online shopping in different countries and more tech savvy customers. |
| Disposable income of target population | 10% | 2 | 0.20 | Amazon's principle to compete with low prices will allow them to be successful in times or economic boom and economic recession. |
| Industry-related technology advancement | 5% | 5 | 0.25 | Amazon has been proactive in implementing and sometimes creating technology that will make their operations more efficient. |
| Security of web site and transactions | 5% | 5 | 0.25 | Amazon being a trusted website will benefit them as concerns of fraud increase. |
| Mobil functionality | 5% | 3 | 0.15 | Although Amazon has not created in the mobile market, they have positioned themselves in away that would allow them to do so. |
| Increase in Cloud Spending | 5% | 4 | 0.20 | As Amazon's cloud storage becomes more popular Amazon should stay competitive and attempt to gain market share. |
| Patent, License and Copyright Laws | 5% | 5 | 0.25 | Amazon has invested heavily in Information Technology and if Amazon were able to create a unique process or tool that would differentiate itself from its competitors they would be able to benefit. |
| Increase demand for immediate product fulfillment | 10% | 4 | 0.40 | Amazon's expansion of its fulfillment centers will allow Amazon to compete if same day delivery becomes a threat. |
|  | | | | |
| **Threats** |  |  |  |  |
| Cost of transportation (oil) | 12% | 3 | 0.36 | Amazon heavily relies on delivery of goods in its operations. As costs increase Amazon's financial position can be negatively affected. |
| Cost of real estate | 10% | 3 | 0.30 | Amazon's efficiencies are partly due to the number of strategically located fulfillment centers. As costs increase Amazon's financial position can be negatively affected and it may affected Amazon's ability to expand. |
| Expiration of Tax Exemption/Increase in Taxes | 5% | 5 | 0.25 | Amazon has been proactive in anticipation that the tax emption would expire however sales will always be threaten by increases in taxes. |
| Increased Risk of Litigation | 5% | 3 | 0.15 | Threat of potential litigation as Amazon continues to expand. |
| Regulation of Industry | 5% | 2 | 0.10 | Any changes in e-commerce regulations that would affect Amazon's operations. |
| "Buying Local" trend | 3% | 3 | 0.09 | Amazon's selection and prices keep it competitive but growing culture of "buying local" can threat it’s success. |
|  | | | | |
| **Total Score** | **100%** |  | **3.70** |  |

Exhibit II:

Internal Factor Analysis (IFAS)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Factors** | **Weight** | **Rate** | **Weighted Scored** | **Comments** |
|  | | | | |
| **Strengths** |  |  |  |  |
| Well developed web-site features and capabilities | 15% | 5 | 0.75 | Customer loyalty, analytical tools |
| Marketing techniques | 10% | 3 | 0.30 | Allows to attract more customers, increases brand awareness |
| Strong distribution channel / Logistics and strategic location of fulfillment centers | 5% | 4 | 0.20 | Customer loyalty due to fast and reliable delivery |
| Strategic partnerships and alliances | 5% | 3 | 0.15 | Diversification of products offered to customers |
| Variety of web-based products to individual/business customers | 15% | 4 | 0.60 | Diversification of clientele |
| Frustration free packaging program | 5% | 3 | 0.15 | Promotes firms as a environmental friendly business. |
| Strong financial position | 10% | 2 | 0.20 | Provides liquidity and solvency, available funds for investments |
| Highly skilled labor | 10% | 4 | 0.40 | Quality of work deliverables is high |
|  | | | | |
| **Weaknesses** |  |  |  |  |
| High production costs | 10% | 3 | 0.30 | Hardware is a low margin business. The loss could reduce the total income (example: Kindle) |
| High shipping expenses | 10% | 3 | 0.30 | Decreases margins |
| Prone to unsuccessful acquisitions | 5% | 1 | 0.05 | Suggests lack of analytical skills, which has resulted in several unsuccessful acquisitions, followed by financial losses |
|  | | | | |
| **Total Score** | **100%** |  | **3.40** |  |

Exhibit III:

Strategic Factor Analysis (SFAS)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Factors** | **Weight** | **Rate** | **Weighted Scored** | **Short** | **Interim** | **Long** | **Comments** |
| Expansion in Global marketplace (O) | 15% | 5 | 0.75 |  | **X** | **X** | Key strategy for expansion |
| Industry-related technology advancement (O) | 5% | 5 | 0.25 | **X** | **X** |  | Supports key operations |
| Security of web site and transactions (O) | 5% | 5 | 0.25 | **X** | **X** |  | Customer satisfaction and loyalty |
| Mobile functionality (O) | 5% | 3 | 0.15 |  | **X** | **X** | Diversification, new market share |
| Cost of transportation (oil) (T) | 12% | 3 | 0.36 |  |  |  | Increase costs |
| Cost of real estate (T) | 10% | 3 | 0.30 | **X** | **X** |  | Increase costs |
| Expiration of Tax Exemption/Increase in Taxes (T) | 5% | 5 | 0.25 | **X** |  |  | Increase costs |
| Well developed web-site features and capabilities (S) | 15% | 5 | 0.75 |  |  |  | Key factor in e-commerce |
| Marketing techniques (S) | 10% | 3 | 0.30 |  |  |  | Brand name |
| Variety of web-based products to individual/business customers (S) | 10% | 4 | 0.40 |  |  |  | Key to attract customers and diversification |
| High production costs (W) | 8% | 3 | 0.24 |  |  |  | Weak in production cost management |
|  |  |  |  |  |  |  |  |
| **Total Score** | **100%** |  | **4.00** |  |  |  |  |

Exhibit IV: Financial Analysis

|  |  | **31-Dec-2008** | **31-Dec-2009** | **31-Dec-2010** | **31-Dec-2011** | **COMMENTS** | **RECOMMENDATIONS** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Liquidity Ratios** | | | | | |  |  |
|  | **Current Ratio:** | 1.30 | 1.33 | 1.33 | 1.17 | Liquidity slightly decreased, inventories grew, which is unfavorable, cash decreased relative to growing liabilities | Tighten inventory management. Monitor healthy cash and cash equivalent levels to maintain solvency, liquidity and opportunity to make strategic investment without raising new capital |
|  | **Quick (Acid Test) Ratio:** | 1.00 | 1.04 | 1.02 | 0.84 |
|  | **Inventory to net working capital:** | 0.99 | 0.89 | 0.95 | 1.92 |
|  | **Cash Ratio:** | 0.58 | 0.47 | 0.36 | 0.35 |
| **Profitability Ratios** | | | | | |  |  |
|  | **Net Profit Margin** | 3.37% | 3.68% | 3.37% | 1.31% | Although Gross Profit Margin remained at the same level, the profitability fell. It implies that other expenses (SG&A, R&D) increased without generating additional revenue. | It is acceptable if R&D does not benefit company sales immediately, however management should review other expenses. For example, Compensation (SG&A) should be tied to revenue growth, at least in the long-term. |
|  | **Gross Profit Margin** | 22.28% | 22.57% | 22.35% | 22.44% |
|  | **Return on Investment (ROI)** | 7.76% | 6.53% | 6.13% | 2.50% |
|  | **Return on Equity (ROE)** | 24.14% | 17.16% | 16.78% | 8.13% |
|  | **Earnings per share (EPS)** | $1.52 | $2.08 | $2.58 | $1.39 |
| **Activity Ratios** | | | | | |  |  |
|  | **Inventory Turnover (times/year)** | 13.70 | 11.29 | 10.68 | 9.63 | It is evident that inventory management deteriorated (decrease Inventory turnover, increased days of inventory). WC turnover also increased, which means that it takes longer to turn inventory into cash. Average collection period also increased, which may be caused by the recession. | Tighten inventory management, review credit condition of customers to decrease AR collection. |
|  | **Days of Inventory** | 34.28 | 41.75 | 44.00 | 48.87 |
|  | **Net Working Capital Turnover** | 13.58 | 10.07 | 10.13 | 18.53 |
|  | **Asset Turnover** | 2.31 | 1.77 | 1.82 | 1.90 |
|  | **Fixed Asset Turnover** | 22.44 | 19.00 | 14.17 | 10.88 |
|  | **Average Collection period** | 15.75 | 14.71 | 16.94 | 19.52 |
|  | **Accounts Receivable Turnover** | 0.56 | 0.87 | 0.61 | 0.49 |
|  | **Accounts Payable Period** | 88.06 | 107.80 | 110.64 | 109.09 |
|  | **Days of Cash** | 52.73 | 51.29 | 40.31 | 40.00 |
| **Leverage Ratios** | | | | | |  |  |
|  | **Debt to asset ratio** | 4.92% | 0.79% | 0.98% | 1.01% | It is evident that Amazon generates enough income to service debt, fixed charges and total liabilities. Debt level decreased relevant to assets, which potentially increase the cost of capital (generally assumed that debt is cheaper than equity if maintained at healthy levels) | No changes are necessary. Recommendation to consider repurchasing stock to lower cost of capital and increase EPS. |
|  | **Debt to equity ratio** | 15.3% | 2.1% | 2.7% | 3.3% |
|  | **Long-term debt to capital structure** | 15.31% | 2.07% | 2.68% | 3.29% |
|  | **Times Interest earned** | 13.56 | 34.97 | 39.56 | 15.18 |
|  | **Coverage of fixed charges** | 5.57 | 7.53 | 4.03 | 1.75 |
|  | **Current liabilities to Equity** | 178% | 140% | 151% | 192% |
| **Other** | | | | | |  |  |
|  | **Price/Earnings Ratio** | 1.00 | 1.00 | 1.00 | 1.00 |  |  |
|  | **Dividend Payout Ratio** | 0% | 0% | 0% | 0% | No Dividends paid |  |
|  | **Dividend Yield on Common Stock** | 0% | 0% | 0% | 0% | No Dividends paid |  |

Exhibit V:

Common Size Income Statement (%)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **31-Dec**  **2008** | **31-Dec**  **2009** | **31-Dec**  **2010** | **31-Dec**  **2011** |
|  |  |  |  |  |
| **Revenues** | **100.00%** | **100.00%** | **100.00%** | **100.00%** |
| **Cost and Expenses** |  |  |  |  |
| Cost of Goods Sold | 77.72% | 77.43% | 77.65% | 77.56% |
| **Operating Expenses** |  |  |  |  |
| Selling General & Admin Expenses, Total | 12.62% | 12.49% | 12.86% | 14.28% |
| R&D Expenses | 5.39% | 5.06% | 5.07% | 6.05% |
| Other Operating Expenses | 0.15% | 0.21% | 0.31% | 0.32% |
| *Total Operating Expense* | *18.16%* | *17.75%* | *18.23%* | *20.65%* |
| **Other** |  |  |  |  |
| Net Interest | 0.06% | 0.01% | 0.04% | -0.01% |
| Unusual Items | 0.19% | 0.08% | 0.25% | 0.12% |
| *Total Other* | *0.25%* | *0.09%* | *0.28%* | *0.12%* |
|  |  |  |  |  |
| **Net Income** | **3%** | **4%** | **3%** | **1%** |